

Message Text

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42

ACTION SS-30

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 8939

INFO AMEMBASSY LONDO

USMISSION EEC BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY TOKYO

C O N F I D E N T I A L JIDDA 5964

EXDIS

E.O.: 11652: GDS

TAGS: ENRG, SA, US

SUBJ: SUPREME PETROLEUM COUNCIL APPROVES ACCEPTING RECENT
OPEC PRICE INCREASES

REF : (A) LONDON 12965 (NOTAL); (B) JIDDA 5858

1. SUMMARY: OMAR SAQQAF WAS LONE VOTE FOR DEFERRAL OR CANCELLATION OF QUITO PRICE INCREASES FOR SAUDI OIL WHEN SUBJECT WAS DISCUSSED ON KING'S ORDERS IN SUPREME PETROLEUM COUNCIL OCTOBER 9. YAMANI MADE ARGUMENT THAT FOR SAG UNILATERALLY TO STAY PRICE INCREASE WOULD DESTROY OPEC UNITY AND ONLY GIVE ARAMCO PARENTS FURTHER UNEXPECTED PROFITS. HE SAID THAT ONLY WAY TO DECREASE PRICES WAS METHOD HE ALREADY FOLLOWING: CONCERTED ACTION WITHIN OPEC ITSELF. HE ADVOCATED ELIMINATION OF POSTED PRICE SYSTEM AND CLAIMED CONSIDERABLE OPEC SUPPORT EXISTS FOR THIS. IN ABSENCE OF FAHD, SAQQAF WAS ISOLATED IN COUNCIL ARGUMENT OVER PRICES. AMBASSADOR DOUBTS YAMANI HAS ENOUGH OPEC
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MEMBERS LINED UP ON ABANDONMENT OF POSTED PRICES TO PUSH

THROUGH. COMPANIES WILL CERTAINLY OPPOSE SUCH A MOVE BECAUSE OF TAX CREDIT DIFFICULTIES. END SUMMARY.

2. SAYYID OMAR SAQQAF, SAUDI MINISTER OF STATE FOR FOREIGN AFFAIRS, TOLD ME LAST NIGHT (OCTOBER 10) THAT HE HAD SPENT THE PREVIOUS DAY IN A BATTLE ON OIL PRICES. HE HAD INFORMED THE KING THAT YAMANI'S PROPOSAL TO APPLY THE QUIT OAND VIENNA OPEC TAX INCREASES WOULD EMBARRASS THE KING AND THE KINGDOM (REF A); THE KING, THEREFORE, HAD ORDERED THE SUPREME PETROLEUM COUNCIL TO DISCUSS THE MATTER.

3. YAMANI, WHO HAD RETURNED TO RIYADH, DEFENDED HIS ACTION VIGOROUSLY. HE SAID THAT NOT RPT NOT APPLYING THE OPEC INCREASES WOULD MEAN ONLY THAT THE ARAMCO PARENTS WOULD INCREASE THEIR PROFITS. THE OIL COMPANIES KNEW IN MAY THAT THEY WOULD HAVE TO PAY THE QUITO INCREASES AND THE PRETENSES THEY NOW MADE TO THE USA ABOUT BEING SURPRISED WERE "PURE LIES." YAMANI SAID HE STILL BELIEVED OIL PRICES SHOULD BE DECREASED AND HE REVIEWED FOR THE CONCIL EVERYTHING HE HAD DONE INSIDE OPEC TO ACHIEVE THIS. THE OPEC PRICE INCREASES WERE, BECAUSE OF HIS ACTIONS, MUCH LOWER THAN ALL OTHER COUNTRIES HAD DEMANDED. BUT SAUDI ARABIA, HE SAID, MUST RPT MUST ACCEPT THE COMPROMISE WHICH HE HAD WORKED OUT--NOT TO DO SO WOULD DESTROY OPEC.

4. YAMANI ARGUED THAT THE PRICE INCREASES COULD BE ABSORBED BY THE COMPANIES; THAT THE ONLY WAY TO DECREASE OIL PRICES WOULD BE BY CONCERTED ACTION WITHIN OPEC ITSELF. HE VOTED TO REDUCE POSTED PRICES OR, PREFERABLY, TO ELIMINATE THEM ALTOGETHER. HE SAID HE HAD DISCUSSED THIS WITH OTHER OPEC MEMBERS AND HAD FOUND "CONSIDERABLE" SUPPORT. THE NEW SYSTEM, HE SAID, WOULD BE PROPOSED FORMALLY AT THE NEXT OPEC MEETING; IT WOULD PROBABLY BE ACCEPTED AND THE MAJOR EUROPEAN AND JAPANESE CONSUMERS WOULD BENEFIT. MARKET FORCES WOULD THEN SERVE TO SET OIL PRICES AND THE WORLD COSWD POSSIBLY SEE AN ACTUAL DECLINE IN OIL PRICES.

5. SAQQAF SAID HE STOOD ALONE IN OPPOSING YAMANI'S IMMEDIATE DEMAND FOR APPLICATION OF THE QUITO AND VIENNA
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INCREASES; ALL MEMBERS OF THE COUNCIL SUPPORTED YAMANI, INCLUDING DIRECTOR OF THE SAUDI ARABIAN MONETARY AUTHORITY (SAMA), ANWAR ALL. PRINCE FAHD, THE CHAIRMAN OF THE COUNCIL, IS STILL NOT RPT NOT BACK FROM LONDON. (REF B) SAQQAF SAID SMANI'S POSITION SOUNDED CONVINCING AND IF POSTED PRICES ARE REDUCED, THE INCREASE IN TAXES CAN BE OFFSET COMPLETELY. I TOLD SAQQAF I SAW NO EVIDENCE THAT ANY COUNTRY IN OPEC WOULD AGREE TO REDUCING POSTED PRICES.

AND IF THE SAUDI POSITION WAS TO WORK INSIDE OPEC (SAQQAF SAID EVEN HE HAD NO DESIRE TO DESTROY OR WEAKEN THE ORGANIZATION) THEN I THOUGHT THIS ARGUMENT ON HELPING THE CONSUMERS WAS MISLEADING.

6. COMMENT: I HAVE NOT SEEN YAMANI YET BUT ASSUME SAQQAF GAVE ME A FAIR ACCOUNT OF WHAT HAPPENED AT THE PETROLEUM COUNCIL MEETING. I DOUBT, HOWEVER, THAT YAMANI HAS A SUBSTANTIAL NUMBER OF OPEC MEMBERS LINED UP BEHIND ANY PROPOSAL TO LOWER POSTED PRICES, ALTHOUGH SEVERAL (E.G. KUWAIT AND IRAN), PERHAPS MOST, MIGHT BE WILLING TO SWITCH FROM POSTED PRICES TO "MARKET PRICE," AS LONG AS THEIR INCOME PER BARREL REMAINED UNCHANGED OR INCREASED. THE MAIN LOSERS IN ANY SUCH SWITCH IN CALCULATION WOULD BE THE MAJOR OIL COMPANIES, NOW HOLDING OIL CONCESSIONS, WHO WOULD HAVE A HARD TIME CONVINCING OUR IRS THAT THEY SHOULD STILL GET U.S. TAX CREDITS FOR WHATEVER THEY PAY THE OPEC GOVERNMENTS FOR THEIR OIL.
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